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## Report of Independent Auditors

## Report of Independent Auditors

Board of Directors  
Electronic Frontier Foundation, Inc.

We have audited the accompanying statement of financial position of the Electronic Frontier Foundation, Inc. at December 31, 2004, and the related statements of changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the management of the Electronic Frontier Foundation, Inc. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the organization's December 31, 2003 financial statements and, in our report dated May 19, 2004, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electronic Frontier Foundation, Inc. as of December 31, 2004, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

*Wilson Markle Stuckey Hardesty & Bott*

Wilson Markle Stuckey Hardesty & Bott  
June 2, 2005



**ELECTRONIC FRONTIER FOUNDATION, INC.**  
Statement of Financial Position  
December 31, 2004

ASSETS

	<u>2004</u>	<u>2003</u>
Current assets		
Cash and cash equivalents	\$ 952,273	\$ 456,907
Investments, at market	1,075,510	\$ -
Grants receivable	25,000	62,500
Prepaid expenses	<u>19,956</u>	<u>27,259</u>
Total current assets	2,072,739	546,666
Property and equipment, at cost	605,749	513,724
Less accumulated depreciation	<u>(151,026)</u>	<u>(118,891)</u>
Net property and equipment	454,723	394,833
Deposits and other assets	<u>13,000</u>	<u>13,000</u>
Total assets	<u><u>\$ 2,540,462</u></u>	<u><u>\$ 954,499</u></u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	<u>\$ 41,999</u>	<u>\$ 29,953</u>
Total current liabilities	41,999	29,953
Net assets		
Unrestricted	617,028	374,260
Unrestricted - Board appointed	1,244,274	0
Temporarily restricted	<u>637,161</u>	<u>550,286</u>
Total net assets	<u>2,498,463</u>	<u>924,546</u>
Total liabilities and net assets	<u><u>\$ 2,540,462</u></u>	<u><u>\$ 954,499</u></u>

See accompanying notes.

**ELECTRONIC FRONTIER FOUNDATION, INC.**

**Statement of Changes in Net Assets**

**Year ended December 31, 2004**

	Unrestricted	Temporarily Restricted	Totals	
			2004	2003
Support and revenue				
Memberships	\$ 589,061	\$ -	\$ 589,061	\$ 579,049
Foundation and corporate contributions	693,260	135,000	828,260	765,793
Individual contributions	2,466,386	-	2,466,386	708,918
Interest and other	104,860	-	104,860	14,789
Net assets released from restrictions	48,125	(48,125)	-	-
Total support and revenue	3,901,692	86,875	3,988,567	2,068,549
Expenses				
Program services	1,911,755	-	1,911,755	1,954,287
General and administrative	315,921	-	315,921	230,712
Fund raising and development	186,974	-	186,974	104,673
	-	-	-	-
Total expenses	2,414,650	-	2,414,650	2,289,672
Change in net assets	1,487,042	86,875	1,573,917	(221,123)
Net assets, beginning of year	374,260	550,286	924,546	1,145,669
Net assets, end of year	\$ 1,861,302	\$ 637,161	\$ 2,498,463	\$ 924,546

See accompanying notes.



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## Year ended December 31, 2004

See accompanying notes.

**ELECTRONIC FRONTIER FOUNDATION, INC.**

Statement of Cash Flows  
Year ended December 31, 2004

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Change in net assets	\$1,573,917	\$ (221,123)
Adjustments to reconcile change in net assets to cash provided by operations		
Depreciation	32,135	26,836
Changes in:		
Investments, at market	(1,075,510)	-
Grants receivable	37,500	(62,500)
Prepaid expenses	7,303	(7,421)
Accounts payable and accrued liabilities	<u>12,046</u>	<u>20,745</u>
Cash provided by operations	587,391	408,225
Cash flows from investing activities		
Acquisition of property and equipment	<u>(92,025)</u>	<u>(58,562)</u>
Net increase (decrease) in cash and cash equivalents	495,366	(602,025)
Cash and cash equivalents, beginning of year	<u>456,907</u>	<u>758,932</u>
Cash and cash equivalents, end of year	<u><u>\$ 952,273</u></u>	<u><u>\$ 456,907</u></u>

See accompanying notes.



**ELECTRONIC FRONTIER FOUNDATION, INC.**

Notes to Financial Statements  
December 31, 2004

Note 1 - Summary of significant accounting policies

Basis of presentation

The Electronic Frontier Foundation, Inc. (EFF) is a non-profit corporation that was formed as a civil liberties organization in 1990 to work in the public interest to promote online privacy, freedom of expression and social responsibility. EFF operates from leased facilities in San Francisco, California.

Basis of accounting

The financial statements of EFF have been prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when the related obligation is incurred.

Grantors may restrict certain support for the activities of EFF to specific purposes or times. EFF classifies such amounts as temporarily restricted net assets in the accompanying financial statements until EFF accomplishes the specific purpose or the specified time elapses.

EFF has applied the provisions of Financial Accounting Standards #116, "Accounting for Contributions Received and Contributions Made" and #117, "Financial Statements of Not-for Profit Organizations".

Property and equipment

Property and equipment acquired by purchase are stated at cost. Depreciation is computed on the straight-line method over estimated useful lives of five to seven years.

Cash and cash equivalents

Cash and cash equivalents consist of amounts on deposit with a commercial bank available on demand. The carrying amount of such cash equivalents approximates fair value due to the short-term nature of these instruments.



**ELECTRONIC FRONTIER FOUNDATION, INC.**  
Notes to Financial Statements  
December 31, 2004

Note 1 - Summary of significant accounting policies (continued)

Investments

EFF classified its investments as available-for-sale. Accordingly, EFF recorded the investments at market value and reported gains and losses in the accompanying statement of changes in net assets.

Income taxes

EFF is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. EFF has been classified as a publicly supported organization as described in Section 509(a)(1) of the Internal Revenue Code. Accordingly, donors are entitled to the maximum charitable contribution allowed by law.

Advertising costs

Advertising costs are charged to expense at the time that the advertising occurs.

Donated services

The value of certain services donated to EFF is not included in the accompanying financial statements. EFF records revenue from only those services that create nonfinancial assets or require specialized skills and would have to be purchased if not provided by donation. There were no such services during the years ended December 31, 2004.

Estimated fair value of financial instruments

Statement of Financial Accounting Standards No. 107, "Disclosure about Fair Value of Financial Instruments" requires the disclosure of the fair value of financial instruments, including assets and liabilities recognized on the Statement of Financial



**ELECTRONIC FRONTIER FOUNDATION, INC.**  
Notes to Financial Statements  
December 31, 2004

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Note 1 - Summary of significant accounting policies (continued)

Estimated fair value of financial instruments (continued)

Position. Management estimates that the aggregate net fair value of financial instruments recognized on the statement of financial position (including receivables, payables and accrued expenses) approximates their carrying value.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

Prior year totals

The total columns captioned 2003 represent certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principals. Accordingly, such information should be read in conjunction with the financial statements for the year ended December 31, 2003, from which the summarized information was derived.

Note 2 - Risks and uncertainties

At December 31, 2004 and at various times during the year then ended, EFF had deposits in commercial banks in excess of federally insured amounts.

EFF receives substantially all of its revenues from individuals and foundations interested in protecting free speech in digital environments.



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## December 31, 2004

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services based on estimates of time and usage.

EFF leases office space under a two leases, both of which expire July 31, 2010. Minimum future lease payments under these leases as of December 31 are:

2005	111,647
2006	117,286
2007	121,972
2008	126,792
2009	131,803
2010	82,765

	December 31, <u>2003</u>	Received <u>2004</u>	Released <u>2004</u>	December 31, <u>2004</u>
Usage restrictions				
Prime number contest	\$ 487,786	\$ -	\$ -	\$ 487,786
Time restrictions	62,500	135,000	48,125	149,375
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	\$550,286	\$135,000	\$48,125	\$637,161